

March 29, 2012

VIA ECFS

Marlene H. Dortch
Secretary
Federal Communications Commission
445 Twelfth Street, SW
Washington, DC 20554

Re: *Notice of Ex Parte Presentation - Pine Telephone Company, Regression Analysis for Limits on Reimbursable Operating and Capital Costs, WC Docket Nos. 10-90, 07-135, 05-337; GN Docket No. 09-51; CC Docket Nos. 01-92, 96-45*

Dear Ms. Dortch:

On March 27, 2012, Pine Telephone System, Inc. ("Pine") met with Wireline Competition Bureau staff to discuss the regression analysis that the Commission proposes to use to develop limits on reimbursable operating and capital costs in the above-referenced proceeding.¹ Pine was represented by John B. Hemphill, principal, and L. Charles Keller of this firm. Staff present from the Wireline Competition Bureau were Patrick Halley, legal counsel to the Bureau Chief; Rodger Woock, Chief, Industry Analysis and Technology Division ("IATD"); Trent Harkrader, Chief, Telecommunications Access Policy Division ("TAPD"); Katie King of TAPD, and Jim Eisner, and Gary Seigel of IATD.

In the meeting, Pine demonstrated that significant data elements that the Commission used in its regression analysis were factually inaccurate as to Pine. In particular, Pine provided the attached "Regression Analysis Actual Parameters Summary" which shows that the square mileage, number of Census blocks, population, and number of housing units (occupied and vacant) in Pine's study area all were significantly understated in the Commission's initial run of the regression analysis. This erroneous data caused the regression analysis to suggest that Pine's operating and capital costs are excessively high, resulting in a proposed reduction in Pine's universal service support that is both severe and unwarranted. Pine urged the staff to re-run the regression analysis using the correct data. Pine also urged the staff to provide the corrected regression analysis, and resulting support calculations, as soon as possible, so that Pine and other similarly situated carriers can make investment decisions going forward.

¹ *Connect America Fund, et al.*, WC Docket Nos. 10-90 *et al.*, Report and Order and Further Notice of Proposed Rulemaking, 26 FCC Rcd 17663, 17741 ¶ 210 and 18258 (App. H) (2011).

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In response to an inquiry from staff, Pine stated that there are additional variables that the Commission should include in the regression analysis that would increase its accuracy and sensitivity to varying operating conditions in analyzing rural telephone companies' cost structures. In the meeting, Pine noted that these would include factors such as topography, soil type and presence of rock, limited construction season due to weather, population density and average loop length. These factors all enter into Pine's cost of doing business, since it operates in a cold, mountainous area with rocky soil that makes trenching difficult, characterized by shifting elevation levels, a limited construction season due to weather, and very sparse population resulting in longer average loop length. Given the indication of staff's interest, Pine said it would submit additional information on other variables that would affect operating costs of rural companies. Following the meeting Pine prepared the attached "Pine Telephone Additional Factors to Consider for More Accurate Regression Analysis." Pine urges the staff to include all of these variables in the regression analysis.

As Pine noted in the meeting, Pine stands ready to assist the staff in ensuring that it has accurate data for these or any other variables for future runs of the analysis.

Sincerely,

WILKINSON BARKER KNAUER, LLP

/s/

Brian W. Higgins

Attachments (2)

cc (email, w/ attachments):

Patrick Halley

Rodger Woock

Trent Harkrader

Katie King

Jim Eisner

Gary Seigel

03 REGRESSION ANALYSIS ACTUAL PARAMETERS SUMMARY

rlm 3-14-12

<u>EXCHANGE</u>	<u>COUNTY</u>	<u>SQ. MILES</u>	CENSUS <u>BLOCKS</u>	<u>POPULATION</u>	HOUSING <u>UNITS</u>	<u>OCCUPIED</u>	<u>VACANT</u>
HALFWAY	BAKER		410	1090	732	531	201
	WALLOWA		5	61	44	26	18
	ADAMS		<u>23</u>	<u>16</u>	<u>22</u>	<u>8</u>	<u>14</u>
TOTAL HALFWAY		395.4	438	1167	798	565	233
GRANITE	GRANT		266	56	155	32	123
	BAKER		<u>286</u>	<u>110</u>	<u>119</u>	<u>53</u>	<u>66</u>
TOTAL GRANITE		312.5	552	166	274	85	189
THREE RIVERS	JEFFERSON		516	243	657	116	541
	DESCHUTES		<u>23</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
TOTAL THREE RIVERS		203.4	539	243	657	116	541
		=====	=====	=====	=====	=====	=====
PINE TELEPHONE TOTALS		911.3	1529	1576	1729	766	963
FCC REGRESSION ANALYSIS		704.3	708	1136	859	557	302

SOURCES: PUC Maps: Areas by autocad calculation
 Remainder - 2010 Census tract / block maps and data

PINE TELEPHONE ADDITIONAL FACTORS TO CONSIDER FOR MORE ACCURATE REGRESSION ANALYSIS

In the construction and operation of Pine Telephone, there are a number of factors that contribute to both capital and operating expenses, which we believe could be considered as additional variables to be used in the regression analysis. Some factors are more significant, in Pine's circumstances, but this is an attempt to identify as many potential variables as possible, and how important each variable is to Pine. Some are of lower importance than others, but all could come into play in the operation of rural telecommunications companies, as a whole.

Soil Type: Perhaps one of the most important expense factors is the soil type in the company's service. This is a significant factor in Pine's construction costs. Different soil types incur different costs during construction and operation.

Percent Bedrock: A more specific measure of ground/soil conditions. As the percentage of bedrock increases, so does the cost of construction and operations. It is more difficult, and thus expensive, to lay cable in bedrock than black soil. The same applies to installation of wireless towers or other plant--it will be more expensive. In Pine's area, there is much granite and other hard rock, and cutting into that rock for construction simply takes more time and money.

Topography: The physical geography of the land is very important in determining operational costs of a company. As we discussed, in our area, the terrain is mostly mountainous, rather than a flat prairie. Closely associated with topography is whether the land is clear, forested, or brushy. All of this will be a factor in both capital and operating costs.

Altitude: Average altitude of the study area can be indicative of the costs of construction. Higher elevations will cost more to serve than lower elevations, all else equal.

Annual Snow and Rainfall: Rainfall can increase costs of construction and maintenance. Dealing with heavy rainfall during construction can cause project delays, accidents, and loss of materials. Last year, there was flooding in Pine's area due to rain and heavy snow melt which washed out roads and some buried cable. All of this had to be repaired. So the amount of winter snow as well as average rainfall can be a factor in the costs a company such as Pine faces.

Frost Index: Frost free days per year or average frost days per year is a factor for Pine. Frozen ground makes construction difficult and substantially influences the cost of building new plant. In Pine's situation, the construction season is shortened about 4-5 months out of the year, and some projects either come to a halt with the first snow, or go forward, with significantly greater expense.

Road Miles: More road miles result in higher construction costs, because the road must be dug up, and then restored to its original condition. Pine works closely with county road supervisors who place conditions on Pine's use of the road right of way.

Average Loop Length: More specific than number of loops, average loop length does a better job of describing operating conditions faced by the company. If loop lengths are relatively long, it can be indicative of a scattered service area. Longer loop distances are more costly to operate than shorter distances.

Subscribers Per Loop Mile: A factor which describes Pine's subscriber density. The fewer subscribers per mile of loop implies less revenue generated per loop mile, which implies a higher cost burden to serve the loop mile. Economies of scale can be utilized as subscribers increase, lowering the realized cost burden of the company.

Company Size: As measured by number of employees. Larger companies have an advantage over smaller companies in that they can better absorb higher operating costs, or adjust business practices to accommodate them. Pine Telephone has 12 employees and is not able to restructure (layoffs, build-outs, projects, hires) as quickly or easily as a larger company could.

Some other factors which sometimes come into play for Pine, but which could apply even more to other companies are:

Occurrence of Natural Disasters: Companies that are situated in regions like "Tornado Alley" or coastal areas within range of an active fault line have the potential to incur large costs associated with rebuilding infrastructure in the event of a natural disaster and may also spend more on infrastructure to protect from natural disasters. Occurrence of previous disasters or probability of future disasters could be a factor in higher costs in disaster prone regions. As mentioned above, Pine has experience flooding which caused damage to its plant. However, this is more on the low end of the disaster scale, than possibilities of tornadoes, tropical storms, or avalanches in mountainous areas.

Climate Zone: If the climate is tropical, subtropical, temperate, warm temperate, tundra, polar, etc. Operational costs will vary between these environments. Pine has a number of winter days in which there is snow on the ground and there is either rain or freezing rain, so that fixing remote equipment can take more time and manpower.

Island: If the study area is or is on an island, the costs to serve can exceed those found in mainland study areas. Explanations include high import costs of materials and saltwater (ocean environment) degradation of plant. Costs are further exacerbated if the company in question operates in a multi-island system. Obviously, this does not apply to Pine, but having plant on both sides of the Snake River to serve the remote location in the Hell's Canyon area results in some added time to perform service.